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By Marilyn Gardner

The vanishing holiday bonus
Year-end cash seems to be going the way of the fruitcake, replaced by gift cards and performance-based awards.

As Christmas approached two years ago, Valerie Bent was looking forward to the sizable semiannual bonus she and her colleagues always received at the investor relations firm where she was a vice president. Although their salaries ranked far below industry standards, the company paid out 90 percent of its profits to its staff as a bonus.

But this time Ms. Bent and other employees received a shock: Despite the most profitable six-month period in the company's 30-year history, and contrary to everyone's expectations, managers reneged on the bonus.

"The company elected to take that money and open plush offices in West Los Angeles and New York," she says. "We were left with zero."

Although her experience may be unusual because it came without warning, it symbolizes the growing uncertainty in some quarters surrounding bonuses. In many companies, the year-end bonus is becoming a quaint memory of earlier times, when an extra envelope from payroll in December was an almost certain reward for everyone in a firm.

"We're seeing the holiday bonuses disappear," says Brian Drum, president of Drum Associates in New York. "Thirty-five years ago, when I first dealt with a lot of companies that used to pay the so-called Christmas bonus, it was a gift. Today, as companies are becoming larger and consolidated, they are giving because it's performance-related." Tying rewards to the performance of the company serves to motivate workers, employment specialists say.

Nowhere is that more evident than on Wall Street. Bonuses are reaching the stratosphere, rising an estimated 10 to 15 percent this year over 2005. Those rewards can average $1.7 million for managing directors of Wall Street banks. For top-tier bankers, they can swell to $20 million or more.

"The financial-services industry has the notoriety of paying the highest bonuses," Mr. Drum says. "They can be multiples of a person's salary. In the more industrial companies ... probably not a lot of bonuses are given out."

Many companies have also changed their fiscal year so it no longer coincides with the calendar year and the holiday season. Some end their year on Nov. 30. for others, it's March 31. "It kind of takes you away from paying a bonus," Drum says.

In a 2005 survey by Hewitt Associates, 59 percent of companies said they would not award holiday bonuses. But more than three-quarters of firms offer performance-based bonuses that must be rearned each year.

Among 1,500 small businesses, 39 percent plan to give employees holiday bonuses this year, according to Constant Contact, an e-mail marketing service for small businesses. That is up 2 percent from last year.

"For small businesses, cash flow and cash management are more difficult issues," says Gail Goodman, CEO of Constant Contact. "It is harder to see out to the future and understand where cash will be next quarter and next year. It takes more confidence for a small business to pay a bonus."

Whatever a company's size, employees are frustrated by a "lack of clarity about how one qualifies for that bonus," says Bill Kuntz, vice president of Princeton One, an outplacement firm.

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“They want to be treated fairly and have clear expectations.”

For Bent, her canceled bonus proved to be fortuitous. “It was the best thing that ever happened to me,” she says. Stunned by the company’s action, she took the next week off and began setting up a business of her own, realizing a long-held dream. Then she quit her job, making it clear to her bosses that the failure to receive a bonus was the reason. “I decided to move on,” she says. Today she is CEO of Big Feet Pajama Co. in Las Vegas.

Corporate generosity may backfire if it is not handled gracefully. Pat Hunnell of Raleigh, N.C., relates two experiences her husband, an engineering manager, had with bonuses.

“A few years ago, the company had an especially good year compared to losses in the previous couple of years,” she says. “The president strode into the office and counted out nine $100 bills onto the desk. He wanted employees to realize the tangible and generous nature of the gift.” He repeated the gesture at each desk, although the amounts varied.

Two years later, the company’s financial situation was more modest. Each worker received only a $10 gift certificate to Red Lion, ostensibly for a Christmas turkey. “I hate to seem ungrateful, but both acts seem garish and ungracious,” Ms. Hunnell says.

Twelve years ago, when Neil Gussman worked for an advertising agency that gave holiday bonuses, the company added a program that gave bonuses for bringing in new clients.
“I was the first one to get a $5,000 check at the holiday party,” he says, noting that it was the biggest bonus he’d ever received. Today he works for a nonprofit chemical foundation in Philadelphia, that hosts a holiday party but gives no bonuses.

What Mr. Gussman calls his “weirdest bonus” came when he worked in the corporate offices of a chemical company. He automatically became part of a safety bonus program that rewarded every employee who remained accident-free for the previous 90 days. “Since I had no paper cuts requiring medical attention, I got a $50 gift card for Wal-Mart every quarter,” he says wryly.
Gift cards are, in fact, an increasingly popular way for some employers to give workers a modest holiday bonus. “It’s more of a trend [now] than the fruitcake and turkey that companies once gave away,” says Jennifer Berman, managing director of CBIZ Human Capital Services in Chicago.

In addition, more than half of the firms surveyed by Mercer Human Resources Consulting use spot cash awards to reward workers for specific accomplishments.

John Challenger, CEO of Challenger, Gray & Christmas, finds that, increasingly, employees have an edge because of the tight labor pool. Noting that this has been a good year for performance, he says, “We expect more companies will be sharing more of that with their employees.” Even so, he adds, “Companies are much more careful today about keeping the bonuses in a reasonable frame. There’s some caution out there, because the economy is slowing. Next year might not be as strong.”

Still, Bob Kustka, president of CHR Partners, a human resources consulting firm in Norwell, Mass., expects changes: “Bonuses are going to come back into vogue in the next few years as the war for talent heats up,” he says. “The new workers entering the workforce, the millennials, will be harder to keep. They don’t have the same level of loyalty [that] previous generations had. Therefore organizations will be looking for innovative ways to keep those workers.” Already he sees gaps in accounting, engineering, and nursing.

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Mr. Kustka notes another factor that could strengthen bonuses: the need to redistribute profits. “A lot of people are critical that CEO pay has risen between 300 percent and 400 percent. How do you justify that, when the average worker over the past 20 years has seen a decline in earning power and CEOs have seen immense growth in their earning power?”

For Bent, losing an expected bonus left her determined to treat her own small staff well. Last year, to reward them for their hard work in starting up the company, she sent them to Italy. This year she plans “something special” again, though for now her exact plans remain a secret.